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## CAUSES OF THE PRESENT BUSINESS SITUATION

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If it were as easy a matter to answer questions as it is to profound them, scientific men would not be held in such high regard. I fear, however, that we embrace under the heading of the sciences some subjects which, owing to the difficulty of setting up a standard, and the conflict among those who are recognized as high authorities, we are compelled to class as very inexact. Political science and political economy I venture to assert come under this head.

If fifty experienced bankers and business men were each examined before a judge, without one hearing what the other said, and the judge were asked to give his verdict as to the cause of the recent panic based upon the evidence thus submitted, I believe he would find it as difficult a problem to solve as any which had ever engaged his attention. And yet this is a concrete question which it seems at first blush should not offer such difficulties. No country has been free from panics. A crisis is reached periodically in the economic conditions of every land, but it seems to me that in no civilized country do conditions reach so acute a stage when disaster overtakes commercial prosperity as with us. And yet we are perhaps the richest nation in the world, blessed with more natural resources, greater wealth per capita, and with a population which certainly is second to none in inventive genius, energy and enterprise. Why is it, then, that a crisis develops with us conditions that no other commercial people have to face?

There is an adage attributed to one of the original Rothschilds. When he was accosted by an excited member of the Stock Exchange, at a critical moment, with the remark that the scarcity of money then prevalent would bring ruin to all industries, he is said to have replied: "Oh no, money is not scarce: securities are scarce." What did he mean to convey by this statement? Nothing else but that the man who was complaining of the scarcity of money did not

know that he could have all the money he needed if he had the proper security to offer.

And such is practically the condition in every financial center of the civilized world except ours. Last October and November, all of our banks practically suspended payment. Many a manufacturer, merchant and financier was unable to procure the necessary funds to carry on his enterprises, regardless of the securities which he had to offer, and the action and reaction of this plight accentuated the acuteness of the situation and intensified the crisis far beyond what it would have been if there had been no currency famine—for it was currency and not real money that was wanted.

I do not mean to say by this that with a perfect banking system, or a more perfect one, such as the leading European nations possess, panics would never occur, but I do say that with this unparable condition eliminated, much of the havoc played by a panic would be averted and normal conditions more quickly restored. And yet, fresh as is the memory of the havoc wrought during the last few months, the commercial and financial powers seem to be so much in conflict as to what steps should be taken in the revising of our banking laws that there is grave danger that nothing at all will be accomplished, simply because Congressmen are confronted with a situation which enables them to say—how should we know what you want or what you need when your wiseacres and your so-called experts cannot agree among themselves.

While the last panic was probably the severest that this country has experienced within the memory of any living man, we fortunately were not confronted with one phase of mistrust which was the chief factor in creating and prolonging the disaster of 1893, namely, the question of our standard. Then we were threatened with going to a depreciated silver basis. Still the last crisis was more acute, because the commerce of the country had grown tremendously; therefore the amounts involved were so immense that the fear of a currency famine produced such mistrust that the hoarding of it and its withdrawal from the banks, by frightened depositors, plunged every center into such a depth of despair that the sentimental effects created the gravest feature of the panic.

Remove from the minds of the community the fear that there is not money enough to go around, so that no one will withdraw from the banks what he has no use for and hoard what he is glad

to return the moment confidence is restored, and you will eliminate from any crisis in the future a gravely disturbing element which seriously aggravates and intensifies the acuteness of the situation.

Perhaps there is no country which goes to the extremes, either of prosperity or adversity, that we do. When times are prosperous and the demand for all sorts of commodities appears to be insatiable, the manufacturer enlarges his plant, the merchant extends his undertakings and the railroads try to build apace all of them unmindful of the fact that sooner or later there must come a halt to continuous, progressive growth and power of consumption, which will necessarily compel reduced production. In older countries, they are more conservative, consequently do not develop so rapidly nor lay themselves liable, as we do, to the disastrous consequences of a contraction in industrial and commercial development.

It therefore behooves us to disseminate a sentiment of greater conservatism, so that we will be content to grow by easier and steadier stages, and not expose ourselves to the danger of any setback which may prove a deluge that will sweep away in a short time the up-building of years. In other words, we must manage our affairs on such lines that when seven fat years have been enjoyed, one lean year will not consume the accumulation of seven fat years, for lean years always have come and always will come, and it is incumbent upon every prudent man to realize that while in prosperous years, when money is easy and credit without limit is at the command of those who merit it, it is unsafe to conduct business on too extended a basis, so that a temporary shrinkage in ready capital will enable him to fall back upon his own resources until the clouds which overhang the horizon are scattered.

It is true that the spirit of optimism has been the mainspring which has spurred the progress of this country with a rapidity which the annals of no other country show. But energy and push when crowned with success year after year engender a dare-devil frame of mind that sooner or later is apt to expose the shrewd planner and successful executor to dangers which play havoc with them and with their confiding followers.

Our archaic banking system is answerable for such irrational conditions as developed during the panic of last November and December of which the following is a fair example. With rates of exchange on Europe, that under ordinary circumstances would

have rendered the shipment of specie unusually profitable, we imported something like \$100,000,000 in gold. That was brought about through a currency famine, which placed bank checks at a discount, or, as it is more commonly but erroneously expressed, currency at a premium. The most optimistic view prevailing at the time construed this importation of gold, if not entirely, at any rate to a large extent, as a temporary loan which would result in its exportation again as soon as our monetary conditions became normal. More than three months have elapsed and not a dollar of the gold has left our shores.

As we look back, however, the solution is easily found. Our exports during the months of November, December, January and February exceeded our imports by something like \$450,000,000. This was brought about through a tremendous reduction in our importations, owing to merchants anticipating a diminished demand, on the one hand, and the necessitous conditions which stimulated our exports on the other. This alone, if there were no other proofs at hand, would clearly demonstrate our tremendous reserve resources and show clearly and forcefully how we are handicapped by our defective banking laws.

It has often been predicted in the past that New York City in the not far distant future would become the exchange center of the world. The experience of the last few months, however, sets back by a number of years the possibility of the consummation of this hope. So long as our money market is exposed to such vicissitudes as the experience of the last crisis brought so prominently and graphically before the world, we cannot come into our own, and we will still have to use the letters of credit on London and other European money centers for a large portion of our foreign commerce.

If a merchant desires to import goods from South America, or from China or Japan, to be drawn for at sixty or ninety days, as is the custom, such a credit authorizing the draft to be made on London or Paris is as good as the cash. The same sort of credit issued on New York is not as good as cash, as the foreign banker negotiating the same would, in making his rates of exchange, have to speculate upon abnormal conditions that might confront him after having sent the draft to New York, these would produce a rate of discount that might entail a loss much greater than the

profit he could make in the purchase of such a bill of exchange. On the other hand, the same transaction based upon a sight draft on New York would compare favorably with a similar transaction in any other monetary center.

So you will observe that the uncertainty of the monetary situation which a time draft might meet when reaching New York City practically eliminates it from the category of an exchange market, and the manifold conditions and considerations that enter into commercial transactions ramify in so many directions, of which this is but an example, that we must be content to take a second or third rate position as a financial center until we can place ourselves on a basis of sound banking, such as that on which the commerce of England, France, Germany and other modern commercial nations rests.

In conclusion I cannot refrain from adding, as a merchant of nearly a half century's experience, that the pessimist who desires to pose as a prophet had better seek another country than ours. We undoubtedly have suffered and are suffering from conditions which seem to be inseparable from a young and vigorous nation. If bad legislation could have definitely checked our progress, we surely would not have arrived at our present marvelous development. But as no man, or no human institution, is perfect, both should be measured by the balance struck after deducting the vices from the virtues, and this balance, I believe, justifies us in looking at the future with cheerful resignation, in a hopeful, yes, optimistic spirit.